

Aurora City
Sevier County, Utah

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2006

Aurora City
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June 30, 2006

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
Aurora City
Aurora, Utah 84620

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Aurora City as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Aurora City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.


In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Aurora City as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2006, on our consideration of Aurora City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 5 through 11 and 43 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Honorable Mayor and City Council
Aurora City

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Aurora City's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements of Aurora City. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


KIMBALL & ROBERTS, P. C.
Certified Public Accountants

December 14, 2006
Richfield, Utah

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Aurora City
Management's Discussion and Analysis
June 30, 2006

As management of Aurora City (the City), we offer readers of the City's financial statements this narrative overview and analysis of financial activities of the City for the fiscal year ended June 30, 2006.

FINANCIAL HIGHLIGHTS

- *Total net assets for the City as a whole increased by \$39,165.
- *Total unrestricted net assets for the City as a whole increased by \$44,815.
- *Total net assets for governmental activities decreased by \$12,242.
- *Total net assets for business-type activities increased by \$51,407.

BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements of Aurora City. The basic financial statements comprise three components: (1) government wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The statement of activities is presented on two pages. The first page reports the extent to which each function or program is self-supporting through fees and intergovernmental aid. The second page identifies the general revenues of the City available to cover any remaining costs of the functions or programs.

Aurora City
Management's Discussion and Analysis
June 30, 2006

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

Because of the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the government fund balance sheet and the government fund statement of the revenues, expenditures, and changes in fund balances provide reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains one major governmental fund, the general fund.

The City adopts an annual appropriated budget for its general and cemetery perpetual care funds. A budgetary comparison schedule has been provided to demonstrate legal compliance with the adopted budget for the general fund.

The basic governmental fund financial statements can be found later in this report; see Table of Contents.

Proprietary funds. The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses one enterprise fund to account for the operations of the water and sewer utilities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise funds are considered major funds of the City.

The proprietary fund financial statements can be found later in this report; see Table of Contents.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are reported later in this report; see Table of Contents.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City.

Aurora City
Management's Discussion and Analysis
June 30, 2006

FINANCIAL ANALYSIS

Aurora City's Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	<u>Total</u>
	<u>Current Year</u>	<u>Previous Year</u>	<u>Current Year</u>	<u>Previous Year</u>	<u>Current Year</u>	<u>Previous Year</u>
Current and other assets	\$496,806	476,990	549,578	490,039	1,046,384	967,029
Net capital assets	<u>489,502</u>	<u>518,162</u>	<u>3,231,468</u>	<u>3,317,235</u>	<u>3,720,970</u>	<u>3,835,397</u>
Total assets	<u>986,308</u>	<u>995,152</u>	<u>3,781,047</u>	<u>3,807,274</u>	<u>4,767,354</u>	<u>4,802,426</u>
Current liabilities	7,468	4,070	11,768	2,304	19,236	6,374
Long-term liabilities	-	-	<u>1,035,335</u>	<u>1,122,434</u>	<u>1,035,335</u>	<u>1,122,434</u>
Total liabilities	<u>7,468</u>	<u>4,070</u>	<u>1,047,104</u>	<u>1,124,738</u>	<u>1,054,571</u>	<u>1,128,808</u>
Net assets:						
Capital assets, net of debt	489,502	518,162	2,196,133	2,194,802	2,685,635	2,712,964
Restricted	278,542	266,033	25,872	16,704	304,414	282,737
Unrestricted	<u>210,795</u>	<u>206,887</u>	<u>511,938</u>	<u>471,031</u>	<u>722,733</u>	<u>677,918</u>
Total net assets	<u>\$978,840</u>	<u>991,082</u>	<u>2,733,943</u>	<u>2,682,536</u>	<u>3,712,783</u>	<u>3,673,618</u>

As noted earlier, net assets may serve over time as a useful indicator of financial position. Total assets exceeded total liabilities at the close of the year by \$3,712,783, an increase of \$39,165 from the previous year. This change is equivalent to the net income for the year, in private sector terms.

Total unrestricted net assets at the end of the year are \$722,733, which represents an increase of \$44,815 from the previous year. Unrestricted net assets are those available to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

The amount of current and other assets represent the amounts of cash and receivables on hand at the end of each year. Other liabilities are the amounts of current and other assets due, at year end, for goods and services acquired.

Changes in capital assets are the result of the difference, in the current year, of the cost of acquisition of capital assets and any depreciation charges on capital assets. Change in long-term debt is the difference in the amount of debt issued and that which has been paid during the year.

Aurora City
Management's Discussion and Analysis
June 30, 2006

FINANCIAL ANALYSIS (continued)

Aurora City's Changes in Net Assets:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	<u>Total</u>
	<u>Current Year</u>	<u>Previous Year</u>	<u>Current Year</u>	<u>Previous Year</u>	<u>Current Year</u>	<u>Previous Year</u>
Program revenues:						
Charges for services	\$ 19,108	26,293	286,517	283,313	305,625	309,606
Operating grants	61,983	45,541	-	-	61,983	45,541
Capital grants	-	5,000	-	-	-	5,000
General revenues:						
Property taxes	51,170	49,359	-	-	51,170	49,359
Sales tax	115,352	106,801	-	-	115,352	106,801
Other taxes	1,623	1,745	-	-	1,623	1,745
Other revenues	27,507	27,133	31,692	13,345	59,199	40,478
Total revenues	<u>276,743</u>	<u>261,873</u>	<u>318,209</u>	<u>296,658</u>	<u>594,952</u>	<u>558,530</u>
Expenses:						
General government	73,470	60,023	-	-	73,470	60,023
Public safety	50,976	45,857	-	-	50,976	45,857
Highways and improvements	96,642	70,973	-	-	96,642	70,973
Parks and recreation	67,897	50,987	-	-	67,897	50,987
Interest on long-term debt	-	-	4,098	4,150	4,098	4,150
Public utilities	-	-	262,704	255,662	262,704	255,662
Total expenses	<u>288,985</u>	<u>227,841</u>	<u>266,802</u>	<u>259,811</u>	<u>555,787</u>	<u>487,652</u>
Excess (deficiency) before transfers and contributions	(12,242)	34,032	51,407	36,846	39,165	70,878
Transfers	-	-	-	-	-	-
Change in net assets	<u>\$(12,242)</u>	<u>34,032</u>	<u>51,407</u>	<u>36,846</u>	<u>39,165</u>	<u>70,878</u>

Total revenues increased by \$36,421, while total expenses increased by \$68,135. The total net increase for the year of \$39,165 is a decrease from the previous year of \$31,713.

Governmental activities revenues of \$276,743 is an increase of \$14,870 from the previous year. Taxes, intergovernmental revenues, and interest revenue increased while other miscellaneous revenue decreased. Governmental activities expenses of \$288,985 is an increase of \$61,144 from the previous year. General overall increases in cost were experienced as well as a bridge repair project in the streets department.

Business-type activities revenue of \$318,209 is an increase of \$21,551 from the previous year. Service income increased more than 3 percent and interest income increased nearly 100 percent. Business-type activities expenses of \$266,802 is a decrease of \$6,991 from the previous year as a result of the cost of delivering water, sewer, irrigation and waste services remaining relatively stable.

Aurora City
Management's Discussion and Analysis
June 30, 2006

BALANCES AND TRANSACTIONS OF INDIVIDUAL FUNDS

Some of the more significant changes in fund balances and fund net assets and any restrictions on those amounts are described below:

General Fund

The fund balance of \$255,783 reflects a decrease of \$4,213 from the previous year. Total revenues increased by \$11,483. Tax revenues, including property taxes and sales taxes increased by \$10,240. Intergovernmental revenue increased by \$5,004. All other revenues decreased by \$3,761.

Total expenditures increased by \$49,561. Expenditure changes, by department, excluding capital outlay: general government increased by \$13,447, public safety (fire, police, and animal control) increased by \$1,763, streets and highways increased by \$21,975, and parks and recreation increased by \$4,088. Transfers to capital projects of \$50,815 was \$8,290 more than in the previous year.

Net assets restricted for class C roads are \$223,454.

Public Utility Fund (water, sewer and solid waste)

Amount restricted for bond payments amount to \$25,872. Unrestricted net assets amount to \$511,938.

GENERAL FUND BUDGETARY HIGHLIGHTS

Revenues for the current year, exclusive of transfers and fund balance appropriations, were originally budgeted in the amount of \$237,500. This amount was changed in the final budget to \$230,867.

Expenditures for the current year, excluding transfers, were originally budgeted in the amount of \$249,100. This amount was amended in the final budget to \$235,425.

Transfers to capital projects was originally budgeted for \$25,415 and was amended to \$50,815.

Aurora City
Management's Discussion and Analysis
June 30, 2006

CAPITAL ASSET AND DEBT ADMINISTRATION

Aurora City's Capital Assets (net of depreciation):

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	<u>Total</u>
	<u>Current Year</u>	<u>Previous Year</u>	<u>Current Year</u>	<u>Previous Year</u>	<u>Current Year</u>	<u>Prior Year</u>
Net Capital Assets:						
Land and water rights	\$ 33,500	33,500	156,537	156,537	190,037	190,037
Buildings and improvements	146,743	152,262	-	-	146,743	152,262
Equipment	60,759	52,400	352	702	60,759	53,102
Infrastructure	<u>248,500</u>	<u>280,000</u>	<u>3,074,580</u>	<u>3,159,997</u>	<u>3,323,080</u>	<u>3,439,997</u>
Totals	<u>\$489,502</u>	<u>518,162</u>	<u>3,231,468</u>	<u>3,317,235</u>	<u>3,720,970</u>	<u>3,835,397</u>

The total amount of capital assets, net of depreciation, of \$3,720,970 is a decrease of \$114,427 from the previous year.

Governmental activities capital assets, net of depreciation, of \$489,502 is an decrease of \$28,660 from the previous year. One truck was acquired at a cost of \$22,645, however, the depreciation expense for the year amounted to \$49,055.

Business-type activities capital assets, net of depreciation, of \$3,231,468 is a decrease of \$85,767 from the previous year. No assets were added during the year. The decrease represents the amount of depreciation expense.

Additional information regarding capital assets may be found in the notes to financial statements.

Aurora City
Management's Discussion and Analysis
June 30, 2006

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Aurora City's Outstanding Debt - Revenue Bonds

	Current <u>Year</u>	Previous <u>Year</u>
Business-type activities:		
Water revenue 1977 A FHA	\$ 62,772	67,045
Water revenue 1988 CIB	17,064	20,888
Water revenue 2002	466,500	493,500
GO Wastewater 1993 A CIB	52,000	56,000
GO Wastewater 1993 B DWQ	<u>437,000</u>	<u>485,000</u>
 Total outstanding debt	 <u>\$1,035,335</u>	 <u>1,122,434</u>

The difference of \$87,099 represents the amount paid on principal on the long-term debt during the year. Additional information regarding the long-term liabilities may be found in the notes to financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

No significant economic changes that would affect the City are expected for the next year. Budgets have been set on essentially the same factors as the current year being reported.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Aurora City's finances for all those with an interest in the City's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Aurora City Recorder, P.O. Box 477, Aurora, UT, 84620.

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BASIC FINANCIAL STATEMENTS

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Aurora City
STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$432,900	493,998	926,898
Accounts receivable, net	-	29,709	29,709
Due from other governments	<u>8,817</u>	<u>-</u>	<u>8,817</u>
Total current assets	<u>441,717</u>	<u>523,706</u>	<u>965,423</u>
Non-current assets:			
Restricted cash and cash equivalents	55,089	25,872	80,961
Capital assets:			
Not being depreciated	33,500	79,103	112,603
Net of accumulated depreciation	<u>456,002</u>	<u>3,152,365</u>	<u>3,608,367</u>
Total non-current assets	<u>544,591</u>	<u>3,257,340</u>	<u>3,801,931</u>
Total assets	<u>986,308</u>	<u>3,781,047</u>	<u>4,767,354</u>
LIABILITIES:			
Current Liabilities:			
Accounts payable	7,468	8,268	15,736
Customer security deposits	-	3,500	3,500
Revenue bonds due within one year	-	35,428	35,428
G O bond due within one year	<u>-</u>	<u>52,000</u>	<u>52,000</u>
Total current liabilities	<u>7,468</u>	<u>99,196</u>	<u>106,663</u>
Non-current liabilities:			
Revenue bonds due after one year	-	510,908	510,908
G O bonds due after one year	<u>-</u>	<u>437,000</u>	<u>437,000</u>
Total non-current liabilities	<u>-</u>	<u>947,908</u>	<u>947,908</u>
Total liabilities	<u>7,468</u>	<u>1,047,104</u>	<u>1,054,571</u>
NET ASSETS:			
Invested in capital assets, net of related debt:	489,502	2,196,133	2,685,635
Restricted:			
Debt service requirements	-	25,872	25,872
Class C roads	223,454	-	223,454
Perpetual care	55,089	-	55,089
Unrestricted	<u>210,795</u>	<u>511,938</u>	<u>722,733</u>
Total net assets	<u>978,840</u>	<u>2,733,943</u>	<u>3,712,783</u>
Total liabilities and net assets	<u>\$986,308</u>	<u>3,781,047</u>	<u>4,767,354</u>

The notes to the financial statements are an integral part of this statement.

Aurora City
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

<u>FUNCTIONS/PROGRAMS:</u>	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	Net (Expense) Revenue (To Next Page)
Primary government:					
Governmental activities:					
Administration	\$ 73,470	15,883	-	-	(57,587)
Public safety:					
Police	10,941	-	4,366	-	(6,574)
Fire	36,421	-	16,000	-	(20,421)
Animal control	3,614	185	-	-	(3,429)
Highways and public improvements	96,642	-	41,617	-	(55,025)
Parks, recreation and public property:					
Parks	37,413	740	-	-	(36,673)
Recreation	18,418	-	-	-	(18,418)
Cemetery	<u>12,066</u>	<u>2,300</u>	<u>-</u>	<u>-</u>	<u>(9,766)</u>
Total governmental activities	<u>288,985</u>	<u>19,108</u>	<u>61,983</u>	<u>-</u>	<u>(207,894)</u>
Business-type activities:					
Water and Sewer	<u>266,802</u>	<u>289,101</u>	<u>-</u>	<u>-</u>	<u>22,299</u>
Total business-type activities	<u>266,802</u>	<u>289,101</u>	<u>-</u>	<u>-</u>	<u>22,299</u>
Total primary government	<u>\$555,787</u>	<u>308,209</u>	<u>61,983</u>	<u>-</u>	<u>(185,595)</u>

(Continued on next page)

The notes to the financial statements are an integral part of this statement.

Aurora City
STATEMENT OF ACTIVITIES (continued)
For the Year Ended June 30, 2006

	Governmental Activities	Business-type Activities	Total
CHANGE IN NET ASSETS:			
Net (expense) revenue (from previous page)	<u>\$(207,894)</u>	<u>22,299</u>	<u>(185,595)</u>
General revenues:			
Property taxes	37,527	-	37,527
In lieu of property taxes	13,643	-	13,643
Sales taxes	115,352	-	115,352
Other taxes	1,623	-	1,623
Unrestricted investment earnings	20,215	20,363	40,578
Impact fees	-	9,190	9,190
Uncollectible revenue	-	(445)	(445)
Miscellaneous	<u>7,292</u>	<u>-</u>	<u>7,292</u>
Total general revenues	<u>195,652</u>	<u>29,108</u>	<u>224,760</u>
Transfers	<u>-</u>	<u>-</u>	<u>-</u>
Total general revenues and transfers	<u>195,652</u>	<u>29,108</u>	<u>224,760</u>
Change in net assets	<u>(12,242)</u>	<u>51,407</u>	<u>39,165</u>
Net assets - beginning	<u>991,082</u>	<u>2,682,536</u>	<u>3,673,618</u>
Net assets - ending	<u>\$978,840</u>	<u>2,733,943</u>	<u>3,712,783</u>

The notes to the financial statements are an integral part of this statement.

Aurora City
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:			
Cash and cash equivalents	\$254,434	178,466	432,900
Due from other governments	8,817	-	8,817
Restricted cash and cash equivalents	<u>-</u>	<u>55,089</u>	<u>55,089</u>
TOTAL ASSETS	<u>263,251</u>	<u>233,555</u>	<u>496,806</u>
LIABILITIES:			
Accounts payable	<u>7,468</u>	<u>-</u>	<u>7,468</u>
TOTAL LIABILITIES	<u>7,468</u>	<u>-</u>	<u>7,468</u>
FUND BALANCES:			
Reserved for:			
Class C Roads	223,454	-	223,454
Perpetual care	-	55,089	55,089
Unreserved, reported in:			
General fund	32,330	-	32,330
Capital project funds	<u>-</u>	<u>178,466</u>	<u>178,466</u>
TOTAL FUND BALANCES	<u>255,783</u>	<u>233,555</u>	<u>489,339</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$263,251</u>	<u>233,555</u>	<u>496,807</u>

The notes to the financial statements are an integral part of this statement.

Aurora City
**STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**
 For the Year Ended June 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:			
Taxes:			
Property tax	\$ 52,008	-	52,008
Sales tax	115,352	-	115,352
Other taxes	1,623	-	1,623
Licenses and permits	2,539	-	2,539
Intergovernmental revenues	45,983	16,000	61,983
Charges for services	2,125	1,100	3,225
Fines and forfeitures	13,344	-	13,344
Interest	20,215	-	20,215
Miscellaneous revenue	<u>9,542</u>	<u>-</u>	<u>9,542</u>
Total revenues	<u>261,893</u>	<u>17,100</u>	<u>278,993</u>
EXPENDITURES:			
Current:			
General government	73,470	-	73,470
Public safety	24,837	19,436	44,273
Highways and public improvements	60,859	-	60,859
Parks, recreation and public property	56,126	5,202	61,328
Capital outlay	<u>-</u>	<u>22,645</u>	<u>22,645</u>
Total expenditures	<u>215,291</u>	<u>47,283</u>	<u>262,574</u>
Excess (Deficiency) of Revenues over (Under) Expenditures	<u>46,602</u>	<u>(30,183)</u>	<u>16,419</u>
Other Financing Sources and (Uses):			
Transfers in	-	50,815	50,815
Transfers (out)	<u>(50,815)</u>	<u>-</u>	<u>(50,815)</u>
Total other financing sources and (uses)	<u>(50,815)</u>	<u>50,815</u>	<u>-</u>
Net Change in Fund Balances	(4,213)	20,632	16,419
Fund balances - beginning of year	<u>259,997</u>	<u>212,923</u>	<u>472,920</u>
Fund Balances - end of year	<u>\$255,783</u>	<u>233,555</u>	<u>489,339</u>

The notes to the financial statements are an integral part of this statement.

Aurora City
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**
June 30, 2006

Total Fund Balances for Governmental Funds	<u>\$489,339</u>
Total net assets reported for governmental activities in the statement are different because:	
Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds.	
Capital assets, at cost	1,099,918
Less accumulated depreciation	<u>(610,417)</u>
Net capital assets	<u>489,502</u>
Total Net Assets of Governmental Activities	<u>\$978,840</u>

The notes to the financial statements are an integral part of this statement.

Aurora City
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

June 30, 2006

Net Change in Fund Balances - Total Governmental Funds **\$16,419**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with a material cost are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expenses.

Capital outlays	22,645
Depreciation expense	<u>(49,055)</u>
Net	<u>(26,410)</u>

Retirement of fixed assets reduces the total fixed assets in the statement of net assets however, no expenditure or revenue is recognized in the statement of activities.

Book cost of retired assets	<u>(2,250)</u>
-----------------------------	----------------

Change in Net Assets of Governmental Activities **\$(12,242)**

The notes to the financial statements are an integral part of this statement.

Aurora City
STATEMENT OF NET ASSETS - PROPRIETARY FUND
June 30, 2006

	Water and Sewer Fund
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 493,998
Accounts receivables, net	<u>29,709</u>
Total current assets	<u>523,706</u>
Non-current assets:	
Restricted cash and cash equivalents	25,872
Capital assets:	
Not being depreciated	79,103
Net of accumulated depreciation	<u>3,152,365</u>
Total non-current assets	<u>3,257,340</u>
Total assets	<u>3,781,047</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	8,268
Customer security deposits	3,500
Revenue bonds, current portion	35,428
General obligation bonds, current portion	<u>52,000</u>
Total current liabilities	<u>99,196</u>
Non-current liabilities:	
Revenue bonds, long-term	510,908
General obligation bonds, long-term	<u>437,000</u>
Total non-current liabilities	<u>947,908</u>
Total liabilities	<u>1,047,104</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,196,133
Restricted for bond retirement	25,872
Unrestricted	<u>511,938</u>
Total net assets	<u>2,733,943</u>
Total liabilities and net assets	<u>\$3,781,047</u>

The notes to the financial statements are an integral part of this statement.

Aurora City
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
June 30, 2006

	<u>Water and Sewer Fund</u>
Operating income:	
Water service income	\$ 109,143
Sewer service income	98,755
Irrigation fees	24,617
Garbage and landfill	53,010
Miscellaneous	<u>8,831</u>
Total operating income	<u>294,056</u>
Operating expenses:	
Personal services	70,076
Contractual services	2,825
Utilities	10,984
Repairs and maintenance	33,444
Other supplies and expenses	3,651
Garbage and landfill costs	55,957
Depreciation expense	<u>85,767</u>
Total operating expense	<u>262,704</u>
Net operating income (loss)	<u>31,351</u>
Non-operating income (expense):	
Impact fees	3,790
Interest income	20,363
Interest on long-term debt	<u>(4,098)</u>
Total non-operating income (expense)	<u>20,055</u>
Change in net assets	51,407
Net assets, beginning	<u>2,682,536</u>
Net assets, ending	<u>\$2,733,943</u>

The notes to the financial statements are an integral part of this statement.

Aurora City
STATEMENT OF CASH FLOWS
For the year ending June 30, 2006

	<u>Water and Sewer Fund</u>
Cash flows from operating activities:	
Cash received from customers - service	\$289,693
Cash paid to suppliers	(102,234)
Cash paid to employees	(67,189)
Net cash provided (used) in operating activities	<u>120,270</u>
Cash flows from noncapital financing activities:	
Change in customer deposits	1,950
Net cash provided (used) in noncapital financing activities	<u>1,950</u>
Cash flows from capital and related financing activities:	
Cash from impact fees	3,790
Cash payment for long-term debt	(87,098)
Cash payments for long-term debt interest	(4,098)
Net cash provided (used) in capital and related financing activities	<u>(87,406)</u>
Cash flows from investing activities:	
Cash received from interest earned	20,363
Net cash provided (used) in investing activities	<u>20,363</u>
Net increase (decrease) in cash	55,177
Cash balance, beginning	464,693
Cash balance, ending	<u>\$519,870</u>
Cash reported on the balance sheet:	
Cash and cash equivalents	\$493,998
Non-current restricted cash	25,872
Total cash and cash equivalents	<u>\$519,870</u>

Continued on next page

The notes to the financial statements are an integral part of this statement.

Aurora City
STATEMENT OF CASH FLOWS, continued
For the year ended June 30, 2006

**Reconciliation of Operating Income
to Net Cash Provided from Operating Activity:**

	<u>Water and Sewer Fund</u>
Net operating income (expense)	\$ 31,351
Adjustments to reconcile operating income or (loss) to net cash provided (used) in operating activities:	
Depreciation and amortization	85,767
Changes in assets and liabilities:	
(Increase) decrease in receivables	(4,362)
Increase (decrease) in payables	<u>7,514</u>
Net cash provided in operating activity	<u>\$120,270</u>

The notes to the financial statements are an integral part of this statement.

Aurora City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1-A. Reporting entity

Aurora City, (the City), a municipal corporation located in Sevier County, Utah, operates under a Mayor-Council form of government. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable.

The City has no component units and is not a component unit of another entity.

1-B. Government-wide and fund financial statements

Government-wide Financial Statements

The government-wide financial statements, consisting of the statement of net assets and the statement of changes in net assets report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Indirect expenses are not allocated. All expenses are included in the applicable function. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privilege provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, if any, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statement.

Aurora City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

1-C. Measurement focus, basis of accounting and financial statement presentation

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, generally including the reclassification of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments or payments to the general fund by other funds for providing administrative and billing services for such funds. Reimbursements are reported as reductions to expenses. Proprietary and any fiduciary fund financial statements are also reported using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when the grantor eligibility requirements are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments, if any, receivable within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating income and expense reported in proprietary fund financial statements include those revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services, including administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Aurora City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

**1-C. Measurement focus, basis of accounting, and financial statement presentation
(continued)**

Policy regarding use of restricted resources

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. Restricted assets and liabilities payable from restricted assets current in nature are reported with current assets and current liabilities. *Restricted assets, non-current* reports assets restricted for acquisition or construction of non-current assets, or are restricted for liquidation of long-term debt.

1-D. Fund types and major funds

Governmental funds

The City reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following as non-major governmental funds:

The *perpetual care fund* accounts for money received for upkeep and perpetual care of cemetery plots.

Proprietary funds

The City reports the following major proprietary funds:

The *water and sewer fund* is used to account for the activities of the culinary water distribution.

1-E. Assets, Liabilities, and Net Assets or Equity

1-E-1. Deposit and Investments

Investments are reported at fair value. Deposits are reported at cost, which approximates fair value. Investments of the City are accounts at the Utah Public Treasurers Investments Fund. Additional information is contained in Note 2.

Aurora City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

1-E. Assets, Liabilities, and Net Assets or Equity (continued)

1-E-2. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

1-E-3. Receivables and Payables

Accounts receivable other than property taxes and intergovernmental receivables are from customers primarily for utility services. Property tax and intergovernmental receivables are considered collectible. Customer accounts are reported net of an allowance for uncollectible accounts. The allowance amount is estimated using accounts receivable past due more than 90 days.

During the course of operations, there may be transactions occur between funds that are representative of lending/borrowing arrangements outstanding at year-end. These are reported as either *due to* or *due from other funds*.

Property taxes are assessed and collected for the City by Daggett County and remitted to the City shortly after collection. Property taxes become a lien on January 1 and are levied on the first Monday in August. Taxes are due and payable on November 1, and are delinquent after November 30. All dates are in the year of levy.

1-E-4. Restricted Assets

In accordance with certain revenue bond covenants, resources may be required to be set aside for the repayment of such bonds, and, on occasion, for the repair and maintenance of the assets acquired with the bond proceeds. These resources are classified as restricted assets on the balance sheet because of their limited use. Most capital grant agreements mandate that grant proceeds be spent only on capital assets. Unspent resources of this nature are also classified as restricted. The limited use resources described above involve a reported restriction of both cash and net assets.

Unspent proceeds of bonds issued to finance capital assets are also reported as restricted cash.

1-E-5. Inventories and Prepaid items

Inventories in governmental funds are not reported. These consist of immaterial amounts of expendable supplies for consumption. Such supplies are acquired as needed. Proprietary fund inventories, where material, are stated at the lower of cost or market, using the first-in, first-out basis.

Prepaid items record payments to vendors that benefit future reporting and are reported on the consumption basis. Both inventories and prepayments are similarly reported in government-wide and fund financial statements.

Aurora City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

1-E. Assets, Liabilities, and Net Assets or Equity (continued)

1-E-6. Capital Assets

Capital assets includes property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual significant cost and an estimated useful life in excess of two years. Such assets are recorded at historical cost or at estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Infrastructure is depreciated.

The cost of normal maintenance and repairs that does not add to the value of an asset or materially extend the assets' life is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Upon retirement or disposition of capital assets, the cost and related accumulated depreciation are removed from the respective accounts. Depreciation of capital assets is computed using the straight-line method over their estimated useful lives.

Property, plant, and equipment of the primary government, as well as the component units if any, is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Water system	50
Infrastructure	25
Vehicles and equipment	5-10

1-E-7. Long-term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are deferred and amortized over the terms of the respective bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Significant or material bond issuance costs are reported as deferred charges.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Aurora City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

1-E. Assets, Liabilities, and Net Assets or Equity (continued)

1-E-8. Fund Equity

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation of legally restricted for specified purposes. The General Fund reserve for restricted purposes includes fund balance/net assets resulting from Class C road allotments restricted for eligible road maintenance. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

2-A. Budgetary data

Annual budgets are prepared and adopted by ordinance by total for each department, in accordance with State law, by the Mayor and City Council on or before June 22 for the following fiscal year beginning July 1. Estimated revenues and appropriations may be increased or decreased by resolution of the city Council at any time during the year. A public hearing must be held prior to any proposed increase in a fund's appropriations. Budgets include activities in the General Fund. The level of the City's budgetary control (the level at which the City's expenditures cannot legally exceed appropriations) is established at the department level. Each department head is responsible for operating within the budget for their department. All annual budgets lapse at fiscal year end.

Utah State law prohibits the appropriation of unreserved General Fund balance to an amount less than 5% of the General Fund revenues. The 5% reserve that cannot be budgeted is used to provide working capital until tax revenue is received, to meet emergency expenditures, and to cover unanticipated deficits. Any unreserved General Fund balance greater than 18% of the next year's budgeted revenues must be appropriated within the following two years.

Once adopted, the budget may be amended by the City Council without hearing provided the budgeted expenditures do not exceed budgeted revenues and appropriated fund balance. A public hearing must be held if the budgeted expenditures will exceed budgeted revenues and any fund balance which is available for budgeting. With the consent of the Mayor, department heads may reallocate unexpended appropriated balances from one expenditure account to another within that department during the budget year. Budgets for the General Fund are prepared on the modified accrual basis of accounting. Encumbrances are not used.

Aurora City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 3 - DETAILED NOTES

3-A. Deposits and investments

Cash and investments as of June 30, 2006 consist of the following:

	<u>Fair Value</u>
Cash on hand	\$ 500
Demand deposits - checking	85,120
Investments - PTIF	<u>922,239</u>
Total cash and investments	<u>\$1,007,859</u>

Cash and investments listed above are classified in the accompanying government-wide statement of net assets as follows:

Cash and cash equivalents (current)	\$926,898
Restricted cash and cash equivalents (non-current)	<u>80,961</u>
Total cash and cash equivalents	<u>\$1,007,859</u>

Cash equivalents and investments are carried at fair value in accordance with GASB Statement No. 31.

The Utah Money Management Act (UMMA) establishes specific requirements regarding deposits of public funds by public treasurers. UMMA requires that city funds be deposited with a qualified depository which includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements specified in UMMA Section 51, Chapter 7. UMMA provides the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and also defines capital requirements which an Institution must maintain to be eligible to accept public funds. UMMA lists the criteria for investments and specifies the assets which are eligible to be invested in, and for some investments, the amount of time to maturity.

UMMA enables the State Treasurer to operate the Public Treasurer's Investment Pool (PTIF). PTIF is managed by the Utah State Treasurer's investment staff and comes under the regulatory authority of the Utah Money Management Council. This council is comprised of a select group of financial professionals from units of local and state government and financial institutions doing business in the state. PTIF operations and portfolio composition is monitored at least semi-annually by the Utah Money Management Council. PTIF is unrated by any nationally recognized statistical rating organizations. Deposits in PTIF are not insured or otherwise guaranteed by the State of Utah. Participants share proportionally in any realized gains or losses on investments which are recorded on an amortized cost basis. Maturities of investments in the PTIF are less than one year and the balance available for withdrawal is based on the accounting records maintained by PTIF. The fair value of the investment pool is approximately equal to the value of the pool shares. The Town maintains monies not immediately needed for expenditure in PTIF and FDIC insured bank savings accounts.

Aurora City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

3-A. Deposits and investments (continued)

Deposit and Investment Risk

The City maintains no investment policy containing any specific provisions intended to limit the City's exposure to interest rate risk, credit risk, and concentration of credit risk other than that imposed by UMMA. The City's compliance with the provisions of UMMA addresses each of these risks.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. All deposits and investments of the City are available immediately.

Credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations. Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits. All of the City's demand deposits are covered by FDIC insurance, but are not collateralized.

Custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. This risk is addressed through the City's policy of investing excess monies only in PTIF.

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. PTIF falls under the constraints of UMMA in limiting concentrations of investments.

3-B. Receivables

The allowance policy is described in Note 1-E-3. Accounts not expected to be collected within one year are captioned as non-current receivables. Receivables as of year end for the City's funds are shown below:

	General <u>Fund</u>	Water and Sewer <u>Fund</u>	<u>Total</u>
Due from other governments	\$8,817	-	8,817
Customers, current	-	29,709	29,709
Total receivables	<u>\$8,817</u>	<u>29,709</u>	<u>38,525</u>

Aurora City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

3-C. Capital Assets

Capital asset activity for the governmental activities was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land and rights	\$ 33,500	-	-	33,500
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, not being depreciated	<u>33,500</u>	<u>-</u>	<u>-</u>	<u>33,500</u>
Capital assets, being depreciated:				
Buildings	210,000	-	-	210,000
Improvements other than buildings	10,773	-	-	10,773
Machinery and equipment	215,500	22,645	22,500	215,645
Infrastructure	<u>630,000</u>	<u>-</u>	<u>-</u>	<u>630,000</u>
Total capital assets, being depreciated	<u>1,066,273</u>	<u>22,645</u>	<u>22,500</u>	<u>1,066,418</u>
Less accumulated depreciation for:				
Buildings	68,500	5,250	-	73,750
Improvements other than buildings	11	269	-	281
Machinery and equipment	163,100	12,036	20,250	154,886
Infrastructure	<u>350,000</u>	<u>31,500</u>	<u>-</u>	<u>381,500</u>
Total accumulated depreciation	<u>581,611</u>	<u>49,055</u>	<u>20,250</u>	<u>610,417</u>
Total capital assets being depreciated, net	<u>484,662</u>	<u>(26,410)</u>	<u>2,250</u>	<u>456,002</u>
Governmental activities capital assets, net	<u>\$518,162</u>	<u>(26,410)</u>	<u>2,250</u>	<u>489,502</u>

Depreciation expense was charged to functions/programs of the primary government governmental activities as follows:

Governmental Activities:	
General government	-
Public safety	\$ 6,703
Highways and public improvements	35,783
Parks, recreation and public property	<u>6,569</u>
Total	<u>\$49,055</u>

Aurora City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

3-C. Capital assets, continued

Capital asset activity for business-type activities was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land and water shares	\$ 156,537	-	-	156,537
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, not being depreciated	<u>156,537</u>	<u>-</u>	<u>-</u>	<u>156,537</u>
Capital assets, being depreciated:				
Utility system	4,248,731	-	-	4,248,731
Buildings and improvements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Equipment	<u>9,432</u>	<u>-</u>	<u>-</u>	<u>9,432</u>
Total capital assets being depreciated	<u>4,258,163</u>	<u>-</u>	<u>-</u>	<u>4,258,163</u>
Less accumulated depreciation for:				
Utility system	1,088,735	85,417	-	1,174,151
Buildings and improvements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Equipment	<u>8,730</u>	<u>350</u>	<u>-</u>	<u>9,080</u>
Total accumulated depreciation	<u>1,097,465</u>	<u>85,767</u>	<u>-</u>	<u>1,183,232</u>
Total capital assets being depreciated, net	<u>3,160,698</u>	<u>(85,767)</u>	<u>-</u>	<u>3,074,931</u>
Business-type activities capital assets, net	<u>\$3,317,235</u>	<u>(85,767)</u>	<u>-</u>	<u>3,231,468</u>

Included in the above caption 'Land and water shares' is 258.97 shares of Piute Irrigation Company water stock and 9.752 shares of Willow Bend Irrigation Company water stock.

Depreciation expense was charged to functions/programs of the primary government business-type activities as follows:

Business-Type Activities:	
Water	\$33,084
Sewer	<u>52,683</u>
Total	<u>\$85,767</u>

Aurora City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

3-D. Long-term debt

Long-term debt activity for the year was as follows:

	<u>Original Principal</u>	<u>% Rate</u>	<u>6/30/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/2006</u>	<u>Due Within One Year</u>
<u>Business-type activities:</u>							
Water revenue bonds:							
Water revenue 1977 A FHA	\$130,000	5.00	\$ 67,045	-	4,273	62,772	4,500
Water revenue 1988 CIB	63,333	4.00	20,888	-	3,825	17,064	3,978
Water revenue 2002	547,500	-	493,500	-	27,000	466,500	27,000
G O Wastewater bonds:							
Wastewater 1993 A CIB	100,000	-	56,000	-	4,000	52,000	4,000
Wastewater 1993 B DWQ	965,000	-	485,000	-	48,000	437,000	48,000
Total long-term debt			<u>\$1,122,433</u>	<u>-</u>	<u>87,098</u>	<u>1,035,336</u>	<u>87,478</u>

All bonds are revenue bonds secured by the revenues of the respective water or sewer systems.

Revenue bond debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 87,478	3,719	91,196
2008	87,867	3,329	91,196
2009	88,774	2,922	91,696
2010	89,201	2,495	91,696
2011	85,167	2,049	87,216
2012-2016	386,485	5,695	392,180
2017-2021	155,364	130	155,492
2022-2026	55,000	0	55,000
Total	<u>\$1,035,336</u>	<u>20,338</u>	<u>1,055,674</u>

Aurora City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 4 - OTHER INFORMATION

4-A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City participates in the Utah Local Government Trust, a public agency insurance mutual, which provides coverage for property damage and general liability. The City is subject to a minimal deductible for claims. There have been no significant reductions in insurance coverage from coverage in the prior year. Amounts of settlements have not exceeded insurance coverage in any of the past three fiscal years.

4-B. Employee pension and other benefit plans

Plan Description:

The City contributes to the Local Governmental Noncontributory Retirement System (Noncontributory System) and Public Safety Retirement System (Public Safety System) for employers with (without) Social Security coverage, all of which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide retirement benefits, annual cost of living adjustments, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and Plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy:

The City is required to contribute a percent of covered salary to the respective systems, 11.09% to the Noncontributory. The contribution rate is the actuarially determined rate and is approved by the Board as authorized by Chapter 49.

The City's contributions to the various systems for the years ending June 30, 2006, 2005 and 2004, respectively, were: for the Noncontributory System, \$8,489, \$8,214, and \$6,952; for the 401k Plan System, \$387, \$369, and \$360. The contributions were equal to the required contributions for each year.

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REQUIRED SUPPLEMENTAL INFORMATION
(Unaudited)

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Aurora City
Notes to Required Supplementary Information
June 30, 2006

Budgetary Comparison Schedules

The Budgetary Comparison Schedules presented in this section of the report are for the City's General Fund.

Budgeting and Budgetary Control

Budgets for the General Fund are legally required and are prepared and adopted on the modified accrual basis of accounting.

Original budgets represent the revenue estimates and spending authority authorized by the City Council prior to the beginning of the year. Final budgets represent the original budget amounts plus any amendments made to the budget during the year by the Council through formal resolution. Final budgets do not include unexpended balances from the prior year because such balances automatically lapse to unreserved fund balance at the end of each year.

Current Year Excess of Expenditures over Appropriations

For the year ended June 30, 2006, spending for the parks and recreation department exceed appropriations by \$5,326. Spending for all other departments of the City was within the approved budgets.

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Aurora City
**SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES -BUDGET AND ACTUAL-GENERAL FUND**
 (Unaudited)

For the Year Ended June 30, 2006

	Budgeted Original	Budgeted Final	Actual	Variance with Final Budget Under (Over)
Revenues				
Taxes	\$151,500	162,500	168,198	(5,698)
Licenses and permits	2,800	2,500	2,539	(39)
Intergovernmental revenues	46,400	30,867	45,983	(15,116)
Charges for services	20,300	14,500	15,469	(969)
Interest	10,000	19,400	20,215	(815)
Miscellaneous revenue	6,500	1,100	9,542	(8,442)
Total revenues	<u>237,500</u>	<u>230,867</u>	<u>261,893</u>	<u>(31,026)</u>
Expenditures				
General government	64,950	84,175	73,470	7,705
Public safety	28,300	30,550	24,837	5,713
Highways and public improvements	95,350	72,900	60,859	12,041
Parks, recreation and public property	60,500	50,800	56,126	(5,326)
Total expenditures	<u>249,100</u>	<u>235,425</u>	<u>215,291</u>	<u>20,134</u>
Excess (Deficiency) of Revenues Over (Under Expenditures)	<u>(11,600)</u>	<u>(4,558)</u>	<u>46,602</u>	<u>(51,160)</u>
Other Financing Sources and (Uses)				
Transfers	(25,415)	(50,815)	(50,815)	-
Total other financing sources and (uses)	<u>(25,415)</u>	<u>(50,815)</u>	<u>(50,815)</u>	<u>-</u>
Net Change in Fund Balances	<u>\$(37,015)</u>	<u>(55,373)</u>	<u>(4,213)</u>	<u>(51,160)</u>
Fund balances - beginning of year			259,997	
Fund Balances - end of year			<u>\$255,783</u>	

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SUPPLEMENTARY INFORMATION

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Aurora City
Supplementary Information
June 30, 2006

Schedule of Impact Fees

Aurora City collects water, sewer and irrigation impact fees. During the year ended June 30, 2006 water impact fees were collected in the amount of \$5,400 and were applied to water construction bond payments; sewer impact fees were collected in the amount of \$1,440 and were applied to sewer construction bond payments.

The following is a recap of the impact fees outstanding by year of collection:

<u>Year</u> <u>Collected</u>	<u>Water</u>	<u>Sewer</u>	<u>Irrigation</u>
2005	-	-	\$ 750
2006	-	-	2,350
Total	<u>-</u>	<u>-</u>	<u>\$3,100</u>

The following capital projects are planned to use the impact fees show above:

<u>Capital Project Planned</u>	<u>Projected</u> <u>Cost</u>	<u>Estimated</u> <u>Start Date</u>	<u>Type of</u> <u>Impact Fee</u>
Irrigation Pond Enlargement	\$75,000	2007	Irrigation

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Other Reports

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Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and City Council
Aurora City
Aurora, Utah 84620

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Aurora City as and for the year ended June 30, 2006, which collectively comprise Aurora City's basic financial statements and have issued our report thereon dated December 14, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Aurora City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Aurora City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of Aurora City in a separate letter dated December 14, 2006.

Honorable Mayor and City Council
Aurora City
Page -2-

This report is intended solely for the information and use of management and City Council and is not intended to be and should not be used by anyone other than these specified parties.


KIMBALL & ROBERTS, P. C.
Certified Public Accountants

December 14, 2006
Richfield, Utah

Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE

Honorable Mayor and City Council
Aurora City
Aurora, Utah 84620

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Aurora City, for the fiscal year ended June 30, 2006, and have issued our report thereon dated December 14, 2006. As part of our audit, we have audited Aurora City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the fiscal year ended June 30, 2006. The City received the following major State assistance programs from the State of Utah:

C Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)

The City also received the following nonmajor grant, which is not required to be audited for specific compliance requirements: (However, this program was subject to testwork as part of the audit of Aurora City's financial statements.)

Fire Grant (Division of Finance)

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the Compliance Manual for Audits of Local Governments in Utah including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Property Tax
Other Compliance Requirements

The management of Aurora City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

Honorable Mayor and City Council
Aurora City
Page -2-

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in a separate management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Aurora City, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major State assistance programs for the fiscal year ended June 30, 2006.


KIMBALL & ROBERTS, P. C.
Certified Public Accountants

December 14, 2006
Richfield, Utah

**AURORA CITY
MANAGEMENT LETTER
JUNE 30, 2006**

Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

FINDINGS AND RECOMMENDATIONS

Honorable Mayor and City Council
Aurora City
Aurora, Utah 84620

During our audit of the funds of Aurora City for the fiscal year ended June 30, 2006, we noted an area needing corrective action in order for the City to be in compliance with state laws and regulations. This item is discussed below for your consideration.

STATE LEGAL COMPLIANCE:

Fund Balance

The maximum unreserved fund balance in the general fund may not exceed 18% of estimated revenues for the general fund.

Finding:

We noted that the general fund has an unreserved fund balance in excess of 18% of estimated revenues of the general fund. The estimated revenues are \$235,715. Maximum unreserved fund balance would be \$42,429. The present unreserved fund balance is \$64,830, which is in excess of the maximum fund balance allowed.

Recommendation:


We recommend that the City reduce the unreserved fund balance. This could be accomplished by using the excess in the following year's budget or transferring the excess to the capital projects fund for planned projects for the City.

Response:

We have reviewed the above finding with management and management agrees with the recommendation.

We would like to take this opportunity to thank Aurora City's personnel for the cooperation and assistance given to us during the course of our examination.

Respectfully submitted,


KIMBALL & ROBERTS, P. C.
Certified Public Accountants

December 14, 2006
Richfield, Utah